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Economic Intelligence Report

THE SOVIET BUDGET FOR 1963



CIA/RR ER 63-18

July 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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FOREWORD

This report is limited principally to the subject of planned Soviet expenditures and revenues as they have been announced in the Soviet state budget for 1963. Examination of the available material related to the 1963 state budget is of little help in detecting Soviet policy on allocation of resources. As in recent years, the paucity of detail on planned budgets and the absence of information on actual budget revenues and expenditures in each preceding year (1962 in this instance) prevent such analysis. Unannounced accounting changes and substantial divergence of actual from planned budgets make the announced budget plans of limited value.

For earlier data and for more details on Soviet budget accounting procedures, see CIA/RR ER 60-37, The 1960 Soviet Budget, November 1960; CIA/RR ER 61-28, The Soviet Budget for 1961, June 1961; and CIA/RR ER 62-34, The Soviet Budget for 1962, November 1962.

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THE SOVIET BUDGET FOR 1963*Summary and Conclusions

In the Soviet state budget for 1963, both the planned expenditures and the planned revenues have been increased by 5.8 billion rubles** -- the largest absolute increase above the plan of the preceding year since 1959. Total planned revenues are to be 87.7 billion rubles in 1963, compared with actual revenues of 84.7 billion in 1962, and total expenditures are to be 86.2 billion rubles, compared with 82.7 billion actually spent in 1962.

The explicit Defense expenditure for 1963 has been announced as 13.9 billion rubles, compared with 13.4 billion planned for 1962 and 11.6 billion actually expended in 1961. On the other hand, much circumstantial evidence indicates that the announced Defense budget is incomplete and that other defense expenditures are hidden in budget categories such as Science,*** and in various unspecified residuals. In addition, the accounting basis of defense may not have been consistent from year to year. Thus the flat trend of announced Defense expenditures of about 9.3 billion rubles from 1958 to 1960 and the sharp rise in actual 1961 expenditure and in 1962 and 1963 plans may not reveal the actual pattern of increases for the whole period.

The largest increases in expenditures in the 1963 budget are those of 2.0 billion rubles in the category Financing the National Economy and 2.3 billion rubles in Social-Cultural Measures. Analysis of the planned figures for Financing the National Economy for 1962 and 1963 reveals no marked changes in the proportion of total funds devoted to

* The estimates and conclusions in this report represent the best judgment of this Office as of 1 June 1963.

** Ruble values in this report are given in new rubles established by the Soviet currency reform of 1 January 1961. A nominal rate of exchange based on the gold content of the respective currencies is 0.90 ruble to US \$1. This rate, however, should not be interpreted as an estimate of the equivalent dollar value of similar US goods or services.

*** The full term for the Soviet budgetary category of expenditures for Science is Expenditures for Scientific-Research Establishments. The Scientific-Research Establishments include the Academy of Sciences of the USSR and its branches and affiliated subordinate institutes, and, in addition, certain other scientific-research establishments more directly connected with production.

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the several sectors under the category. The slight increase in budgetary allocation* to State Agriculture** and the declines in budgetary allocations to Transportation and Communications and to Municipal Economy and Housing*** are offset by proportionately larger allocations from enterprise own funds. The underfulfillment of plans for state housing construction in recent years appears to be reflected in lowered targets for expenditures for Municipal Economy and Housing in the 1963 plan.

Budgetary allocations to state enterprises and economic organizations under the category Financing the National Economy are to rise from 32.5 billion rubles in the 1962 planned budget to 34.5 billion rubles in the 1963 budget. The total plan for Financing the National Economy, however, is to increase from 56.5 billion rubles in 1962 to 63.2 billion rubles in 1963. The difference is the share of financing accounted for by enterprise own funds. The increase of 4.6 billion rubles in enterprise own funds reflects the large increase in amortization rates introduced in 1963.

The increase in expenditures for Social-Cultural Measures from 28.7 billion rubles in 1962 to 31.0 billion in 1963 is a result of the shift from 7-year to 8-year schooling, growing pension costs, increased pay to health workers, and continuing growth in science.

Within the revenue structure, deductions from profits of state enterprises continue to gain in importance relative to revenues from turnover taxes. The larger than usual increase in taxes on the population is caused in part by the cancellation late in 1962 of further reductions in the income tax.

* Throughout this report the term allocation is used consistently as an equivalent of expenditure.

** The Soviet budgetary category of expenditures for State Agriculture includes allocations to state farms; to repair technical stations (RTS's); and to general agricultural programs such as irrigation, experimental stations, and afforestation; but it excludes the collective farms.

*** The Soviet budgetary category of expenditures for Municipal Economy and Housing includes grants from the budget for (1) municipal capital such as gas plants, electrical power stations, bridges, parks, and streets and (2) housing construction.

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I. Scope and Significance of the Budget

The state budget of the USSR summarizes in financial terms the plans of the state for mobilizing the economic surplus of the economy over and above household consumption and for apportioning it among various competing ends (the general activities of investment, national defense, welfare, and government administration). The Soviet budget is far broader than Western national budgets -- for example, the Soviet budget includes funds for investment and operational expenditures of productive enterprises that, in capitalist economies, are by and large privately financed.

Although the budget is the principal channel for allocating funds to economic enterprises and organizations, these enterprises and organizations also are financed from retained profits and bank loans. In addition, the collective farms, which are not financed from the budget, finance their activities out of retained income and bank loans.

The Soviet state budget is a consolidated budget, combining the all-union budget, the budgets of the union republics, and the Social Security budget. On the average it has accounted for about 40 percent of the gross national product of the USSR. Thus its announcement for any given year in December of the preceding year provides an early indication of Soviet policies for the coming year and of fulfillment in the past year.

The published sources of information on the Soviet budget are the speeches of the Minister of Finance and others to the Supreme Soviet in December of the preceding year, articles published in Finansy SSSR, Planovoye khozyaystvo, and Den'gi i kredit in the early part of the year, and the statistical handbooks (Narodnoye khozyaystvo SSSR and SSSR v tsifrakh). For the second year in succession this material has provided almost no information on plan fulfillment for the preceding years, and it has provided less detailed information than before on the planned budgets. Nevertheless, publication in 1962 of a new budget handbook 1/* has provided more complete data on actual expenditures and revenues for the years before 1961 (see Tables 1,** 8, and 9***), especially for the categories in Financing the National Economy.

* For serially numbered source references, see the Appendix.

** Table 1 follows on p. 4.

*** Pp. 19 and 21, respectively, below.

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II. Expenditures

The breakdown of expenditures by major category in the Soviet budget for 1963 shows little change from the 1962 Budget. After the apparent shift of expenditures from Financing the National Economy to Defense that took place between the publication of the 1961 budget plan and the announcement of the actual 1961 budget expenditures, the structure of expenditures apparently settled into a slightly different mold.

Table 1

Summary of Expenditures of the State Budget of the USSR
1958-63

	Of Which							
	Total		Financing		Social-		Explicit	
	<u>Expenditures</u>		<u>the National</u>		<u>Cultural</u>		<u>Defense</u>	
	Billion		Billion		Billion		Billion	
	Current	Per-	Current	Per-	Current	Per-	Current	Per-
	<u>Rubles</u>	<u>cent</u>	<u>Rubles</u>	<u>cent</u>	<u>Rubles</u>	<u>cent</u>	<u>Rubles</u>	<u>cent</u>
1958 (actual)	64.28	100	29.03	45.1	21.42	33.3	9.36	14.5
1959 (actual)	70.40	100	32.37	45.9	23.12	32.8	9.37	13.3
1960 (actual)	73.63	100	34.13	46.3	24.94	33.8	9.30	12.6
1961 (plan)	77.6	100	33.9	43.6	27.1	34.9	9.26	11.9
1961 (actual)	76.3	100	32.6	42.7	27.2	35.6	11.6	15.2
1962 (plan)	80.4	100	32.5	40.4	28.7	35.6	13.4	16.6
1962 (actual)	82.7	100	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1963 (plan)	86.2	100	34.5	40.0	31.0	35.9	13.9	16.1

The planned increase of 5.8 billion rubles in total expenditures in 1963 is matched by an equal increase in planned receipts. In ruble terms this increase is larger than any increase since 1959, and in percentage terms it is more than in any year except 1959.

Announced increases in the budgetary allocation to Industry and Construction (2.0 billion rubles) and Social-Cultural Measures (2.3 billion rubles) account for 4.3 billion rubles of the increment. In contrast with 1961 and 1962, the budget plan for 1963 shows a relatively small increase in the allocation to the explicit Defense category.

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A. Financing the National Economy

The budget category Financing the National Economy, which accounts for 40 to 45 percent of total budget expenditures, provides funds for investment, working capital, and operational outlays of productive enterprises and organizations. Unlike other outlay categories, which finance institutions almost completely dependent on the state budget for support, Financing the National Economy deals basically with state enterprises and organizations that are independent accounting units -- that is, with enterprises that operate on the principle of khozraschet (economic accountability), charging costs of operation to revenue from the sale of the product. Any surplus revenue (profit) of these enterprises either is turned over to the budget as profit tax or is retained by the enterprise and used for investment, working capital, and other needs. The major share of investment funds, however, is provided by direct budget grant.

The over-all plan for Financing the National Economy thus includes not only budget allocations (about 60 percent of the total in past years) but also retained profits and amortization funds of enterprises and organizations (the so-called enterprise own funds). Total Financing the National Economy is planned at 63.2 billion rubles for 1963, up 6.7 billion from the 1962 plan (see Table 2*). This increase contrasts markedly with the slight increase in the 1962 plan relative to 1961.

Various accounting or price changes seriously affect the comparability of Financing the National Economy and many of its economic sectors from year to year. Through 1960, allocations to domestic and foreign Trade apparently included subsidies to foreign trade organizations which resulted from the old exchange rate of 4 rubles to the dollar. The devaluation of the foreign exchange ruble from 4 to 9.0 (0.90 new ruble) to the dollar reduced the subsidies, the foreign trade allocation, and Financing the National Economy as a whole after 1960 by about 2 billion rubles (see Table 8**). For 1963, Agricultural Procurement has been lumped with State Agriculture, whereas in the plan for 1962 it was included in the Trade category. Also, in 1963 a substantial increase in amortization allowances is to contribute to a much larger growth of enterprise own funds than in the past. Therefore, budget funds will diminish as a percentage share of the total plan for Financing the National Economy. Finally, accounting categories may have been shifted from Financing the National Economy to Defense after Khrushchev's

* Table 2 follows on p. 6.

** P. 19, below.

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Table 2

Planned Expenditures for Financing the National Economy in the USSR a/
1960-63

Economic Sector	Billion Current Rubles											
	1960			1961			1962			1963		
	Budget	Enterprise Own Funds	Total	Budget	Enterprise Own Funds	Total	Budget	Enterprise Own Funds	Total	Budget	Enterprise Own Funds	Total
Industry and Construction	15.19	12.74	27.93	16.1	N.A.	N.A.	14.8	15.7	30.5	15.5	18.2	33.7
State Agriculture	3.23	1.83	5.06	4.2	2.0	6.2	5.1	2.5	7.6	5.7 <u>b/</u>	4.0 <u>b/</u>	9.7 <u>b/</u>
Transportation and Communications	2.54	3.19	5.73	(2.5) <u>c/</u>	N.A.	N.A.	2.5	3.8	6.3	2.4	4.5	6.9
Trade (domestic and foreign)	N.A.	N.A.	N.A.	(1.6)	N.A.	N.A.	1.7	1.0	2.7	{ 1.7 <u>d/</u>	0.8 <u>d/</u>	2.5 <u>d/</u>
Agricultural Procurement	(0.5)	N.A.	N.A.	(0.5)	N.A.	N.A.						
Municipal Economy and Housing	2.86	0.28	3.14	3.6	N.A.	N.A.	3.8	0.3	4.1	3.7	0.5	4.2
Residual	N.A.	N.A.	N.A.	(5.4)	N.A.	N.A.	4.5 <u>e/</u>	0.8	5.3	5.5	0.7	6.2
Total Financing the National Economy	<u>32.85</u>	<u>19.47</u>	<u>52.32</u>	<u>33.9</u>	<u>22.5</u>	<u>56.4</u>	<u>32.4 e/</u>	<u>24.1</u>	<u>56.5</u>	<u>34.5</u>	<u>28.7</u>	<u>63.2</u>

- a. 2/
b. Including Agricultural Procurement.
c. Figures in parentheses are estimates (see Table 8, p. 19, below).
d. Included in State Agriculture.
e. From source 3/. These figures will differ from those in Tables 1 and 8, which are from source 4/. The 100-million-ruble difference quite possibly is a result of different rounding in the original sources.

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announcement in May 1961 that Defense in 1961 would be increased by one-third above the original plan.* 5/

Analysis of the plan figures for 1962 and 1963 in Table 2** reveals no large changes in the proportions of total funds assumed by the several sectors. As in prior years, however, actual expenditures may diverge widely from plan.

1. Investment

The data on centralized capital investment and planned sources of financing (see Table 3***) include investments in organizations under the Social-Cultural Measures, Administration, and Defense categories of the budget as well as investments in enterprises and organizations under Financing the National Economy. Because the official Soviet budget statistics on investment have not been published with this breakdown since 1956, determination of investments in each category is not possible. In 1955 and 1956, however, 92 percent of all outlays from the budget on capital investments were made under Financing the National Economy. 6/

Centralized investment is planned at 33.5 billion rubles for 1963, or 2.9 billion rubles greater than that planned for 1962. The budget share of total financing of investment has been declining as the share of enterprise funds has been increasing. Introduction of the new amortization norms in 1963 has materially increased the share of amortization funds available for investment. In recent years, expenditures for the replacement of equipment have been increasing rapidly. The financing of a larger share of investments out of amortization funds reflects this changing picture. As is shown by Table 3, investment from retained profits of enterprises is planned to decline by 200 million rubles from the planned level of 1962.

2. Working Capital

The 1963 budget message criticized inadequacies in conserving working capital, as have past budget messages. For 1963 the planned increase in liquid assets held by Soviet enterprises and organizations (enterprise or equivalent own working capital) to cover minimum physical allowances for working capital needs approved in enterprise plans is set

* See C, p. 18, below.

** P. 6, above.

*** Table 3 follows on p. 8.

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Table 3

Capital Investment and Planned Sources for Financing in the USSR
1958-63 a/

	<u>1958</u>	<u>1959</u>	<u>1960 <u>b/</u></u>	<u>1961 <u>b/</u></u>	<u>1962 <u>b/</u></u>	<u>1963 <u>b/</u></u>
	<u>Billion "Estimate" <u>c/</u> Rubles</u>					
Volume (centralized)						
Total (plan)	19.88	22.60	25.55	29.5	30.6	33.5
Total (actual)	20.48	22.65	25.67	28.3	30.5	N.A.
	<u>Billion Current Rubles</u>					
Planned financing (centralized)						
Total (plan)	20.38	23.31	26.24	29.5	31.0	33.8
Planned sources						
Budget	14.27	16.37	18.06	19.5	19.7	20.4
Profit	2.51	2.94	3.43	4.2	4.4	4.2
Amortization	2.77	3.25	3.61	4.1	4.6	7.8
Other	0.83	0.75	1.14	1.7	2.3	1.4
	<u>Billion "Estimate" <u>c/</u> Rubles</u>					
Decentralized (actual) <u>d/</u>	4.04	4.75	5.12	4.4	4	3.65 <u>e/</u>

a. 7/

b. Beginning with 1960, figures for centralized investment include outlays for project planning. In 1960, such outlays amounted to 0.7 billion rubles.

c. Volume of construction, both planned and completed, is quoted in terms of "estimate prices," which are prices of 1 July 1955 with certain subsequent adjustments. The relationship of these estimate prices to current prices is reflected roughly by the relationship of the planned volume of investment, expressed in estimate prices, to the planned financing (including increased working capital for the construction organizations) for the same year, expressed in current rubles.

d. Excluding investment by collective farms and investment in new housing constructed by individuals.

e. Planned to be 350 million rubles less in 1963 than in 1962.

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at 3.6 billion rubles.* This amount is substantially above the 1962 planned and actual increases (see Table 4**). In addition, the proportion of the increment in own working capital to be contributed from enterprise retained profits rather than budget grants is scheduled to rise sharply. Actual increases in own working capital were close to the planned increases in 1961 and 1962 after 2 years in which actual increases ranged far above plan.

Inventories of raw materials, goods in process, and finished product in warehouses have been consistently about 5 billion rubles larger than the sum of enterprise own working capital funds and short-term bank credit extended for financing these inventories. This may indicate some evasion of state control over inventory levels through the diversion of the proceeds of loans intended for other purposes or through the substantial growth in unpaid debts between enterprises and organizations. In the past the attempt to foster state control over the use of working capital has taken the form of exhortations to planners to be more rigorous in setting norms for enterprise own working capital and the raising of the proportion of working capital covered by bank loans from 37 percent in 1955 to 45 percent in 1961. In turn, the proportion covered by own working capital has declined from 44 percent to 38 percent during the same period.

3. State Agriculture and Agricultural Procurement

Budget statistics dealing with agriculture have frequently been affected by institutional and accounting changes. In recent years these changes have been (a) the institutional change that has transformed a number of collective farms (outside of the budget) into state farms, (b) the general trend toward more financing by enterprise own funds, and (c) the combining of expenditures for Agricultural Procurement (zagotovka) and for State Agriculture*** in the plan for 1963.

* The minimum physical allowances for total working capital financed from own working capital do not meet all legitimate requirements for working capital. Bank credit also is used to finance physical inventory holdings, particularly those of a seasonal nature. The size of budgetary grants for increasing enterprise own working capital is determined after taking into account the increases in required physical working capital implied in enterprise plans, the possibilities for financing increases in working capital out of retained profits, and the relative advantages of using alternative sources of financing external to the enterprise, such as direct budget grants and short-term bank loans.

** Table 4 follows on p. 10.

*** The Soviet budgetary category of expenditures for State Agriculture includes allocations to state farms, to repair technical stations, and to general agricultural programs such as irrigation, experimental stations, and afforestation; but it excludes the collective farms.

Table 4

Own Working Capital Norms of State Enterprises in the USSR
1 January 1959 - 1 January 1964 a/

Billion Current Rubles

	<u>1 January 1959</u>		<u>1 January 1960</u>		<u>1 January 1961</u>		<u>1 January 1962</u>		<u>1 January 1963</u>		<u>1 January 1964</u>
	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>
Economic Sector											
Industry and Construction	18.79	18.72	20.07	20.48	22.26	23.0	24.9	24.6	26.0	25.8	27.8
State Agriculture	3.01	3.27	3.74	3.85	4.30	4.5	5.2	6.4	7.5	9.0	10.0
Transportation and Communications	0.87	1.28	1.37	1.46	1.57	1.6	1.7	1.7	1.8	1.8	1.9
Trade (domestic)	2.98	3.02	3.33	3.53	3.77	4.0	4.4	4.4	4.7	4.8	5.1
Agricultural Procurement	} 1.88	1.93	2.06	2.33	2.54	3.5	3.7	{ 1.1	1.2	1.9	2.1
Other											
Total	<u>27.53</u>	<u>28.22</u>	<u>30.57</u>	<u>31.65</u>	<u>34.44</u>	<u>36.6</u>	<u>39.9</u>	<u>40.1</u>	<u>43.2</u>	<u>43.3</u>	<u>46.9</u>
Increase in Each Year Above the Preceding Year											
	<u>1 January 1959 -</u>		<u>1 January 1960 -</u>		<u>1 January 1961 -</u>		<u>1 January 1962 -</u>		<u>1 January 1963 -</u>		<u>1 January 1964 -</u>
	<u>1 January 1960</u>		<u>1 January 1961</u>		<u>1 January 1962</u>		<u>1 January 1963</u>		<u>1 January 1964</u>		
Planned increase in enterprise own working capital											
Contributed from the budget		0.61		0.73		1.1		1.1		1.1	
Contributed from enterprise own funds		1.74		2.06		2.2		2.0		2.5	
Total		<u>2.35</u>		<u>2.79</u>		<u>3.3</u>		<u>3.1</u>		<u>3.6</u>	
Actual increase in enterprise own working capital norms <u>b/</u>		<u>3.43</u>		<u>4.95</u>		<u>3.5</u>		<u>3.2</u>		N.A.	

a. 8/

b. The difference between total actual own working capital norms at the end of a given year and at the end of the preceding year.

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Thus the large annual increases in budgetary allocations to State Agriculture from 1959 to 1963 reflect in part the transformation of collective farms into state farms (see Table 5*). The small estimated increase in budget allocations to State Agriculture in the 1963 plan above the 1962 plan is offset by larger increases in financing from enterprise own funds.

Total planned financing from budget and enterprise own funds for State Agriculture and Agricultural Procurement was announced for 1963 as 9.7 billion rubles, of which 5.7 billion rubles was to come from the budget (see Table 2**). Garbuzov also stated that "the whole sum of state assignments to agriculture will grow by comparison with 1962 by 17.8 percent." 9/ With total financing in 1962 at 7.6 billion rubles, this statement implies 9.0 billion rubles for State Agriculture net of Agricultural Procurements in 1963. The division of this 9.0 billion rubles between budget funds and enterprise own funds can be estimated as 5.2 billion rubles in the budget and 3.8 billion rubles in own funds.***

The overstatement of apparent trends compared with real trends in financing State Agriculture also occurs in investment in State Agriculture. The Soviet leadership repeatedly has proclaimed large increases in investment in Soviet agriculture that do not represent the full investment picture in agriculture in the USSR. The announced investment has pertained to State Agriculture alone. Investment by collective farms, falling as a share of all investment in agriculture in recent years, came to 44 percent of the total in 1961.

4. Municipal Economy and Housing

Expenditures from the budget for Municipal Economy and Housing† are planned to decline slightly in 1963 compared with the 1962 plan. The interruption of growth in planned expenditures in

* Table 5 follows on p. 12.

** P. 6, above.

*** Budgetary allocations to state and cooperative trade totaled 4.8 billion rubles during the first 4 years of the Seven Year Plan (1959-65). 10/ The average of 1.2 billion rubles is taken as estimated allocations to Trade in 1962, when Trade and Agricultural Procurement were announced together at 1.7 billion rubles. Budgetary assignments to Agricultural Procurement are assumed to be 0.5 billion rubles in 1962 and 1963.

† The Soviet budgetary category of expenditures for Municipal Economy and Housing includes grants from the budget for (1) municipal capital such as gas plants, electrical power stations, bridges, parks, and streets and (2) housing construction.

Table 5

Expenditures for State Agriculture in the USSR a/
1958-63

	Billion Current Rubles									
	1958		1959		1960		1961 Plan	1962 Plan	1963 Plan	
	Plan	Actual	Plan	Actual	Plan	Actual				
Total financing	<u>6.52</u>		<u>4.50</u>		<u>5.06</u>		<u>6.2</u>	<u>7.6</u> <u>b/</u>	<u>(9.0)</u> <u>c/</u>	
Budget funds	<u>5.34</u>	<u>4.00</u>	<u>3.03</u>	<u>3.52</u>	<u>3.23</u>	<u>4.42</u>	<u>4.2</u>	<u>5.1</u>	<u>(5.2)</u>	
MTS-RTS's <u>d/</u>	2.96	1.41	0.37	0.11	0.29 <u>e/</u>	0.07	(0)	(0)	(0)	
State farms	1.19	2.59	1.40	3.41	1.90	4.35	2.7	3.5 <u>f/</u>		
Other	1.19		1.26		1.04		(1.5)	(1.6)		
Enterprise own funds	<u>1.18</u>		<u>1.47</u>		<u>1.83</u>		<u>2.0</u>	<u>2.5</u>	<u>(3.8)</u>	
Total centralized investment	<u>2.97</u>		<u>1.91</u>		<u>1.90</u>		<u>2.3</u>	<u>3.1</u>	<u>4.1</u>	

a. 11/

b. Original plan. Inasmuch as the original plan for centralized capital investments in agriculture in 1962, in the amount of 3,139 million rubles, later was increased by 210 million rubles, 12/ the total plan is presumed to have been increased at the same time by an equal amount.

c. Figures in parentheses are estimates. For the derivation of the estimates in the 1963 plan, see p. 9, above.

d. Machine tractor stations (MTS's) until 1958, repair technical stations (RTS's) thereafter.

e. This figure may include a small amount of enterprise own funds in addition to budget funds.

f. Total allocation to state farms was 5,011 million rubles. The distribution between the planned contributions to this amount from budget funds and from enterprise own funds has been estimated on the basis of the trend in previous years.

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this sector in 1962 and 1963 is consistent with the significant under-fulfillment of plans for state housing completions since 1960. 13/ Soviet planners have tended to defer housing construction in favor of other types of construction in their campaign to reduce the volume of unfinished priority construction.

B. Social-Cultural Measures

Following a relative pause in 1962 in the upward trend in planned expenditures for Social-Cultural Measures, the 1963 budget shows an increase of 2.3 billion rubles, or 8 percent, above the 1962 plan. The behavior of expenditures in this category since 1958 is summarized in Table 6.*

As in 1961 and 1962, the major part of the increase in planned expenditures is to take place in education. Gaps in information on the 1962 and 1963 budgets make it difficult to identify the areas in which the increases in outlays are concentrated, but much of the increase probably is connected with the shift from 7-year to 8-year schooling under general education and a sizable increase in the planned allocation to science. The rise in outlays for Health and Physical Culture probably stems in large part from the recent increase in the wages of health workers.

Planned outlays for Social Welfare continue to rise at the pace of past years in keeping with the scheduled increases in pension payments. After allowing for the rise in pension costs caused by increasing numbers of eligible citizens, little is left for expanding other areas of the Soviet Social Security and Social Insurance program.

Announced plan expenditures for scientific research, which include both budget outlays** and research supported by economic organizations from enterprise own funds, show an increase of 9 percent, somewhat smaller than in past years (see Table 7***). The budget outlays probably cover research and development of a basic nature or industrial research applicable to a wide area, whereas research and development directed toward the requirement of individual plants is financed by the economic organizations themselves. 14/ The lack of detail on†

* Table 6 follows on p. 14.

** The full term for the Soviet budgetary category of expenditure for Science is Expenditures for Scientific-Research Establishments. The Scientific-Research Establishments include the Academy of Sciences of the USSR and its branches and affiliated subordinate institutes, and, in addition, certain other scientific-research establishments more directly connected with production.

*** Table 7 follows on p. 16.

† Text continued on p. 18.

Table 6

Expenditures for Social-Cultural Measures in the State Budget of the USSR a/
1958-63

	Billion Current Rubles							
	1958	1959	1960		1961		1962	1963
	Actual	Actual	Plan	Actual	Plan	Actual	Plan	Plan
Total for Social-Cultural Measures <u>b/</u>	<u>21.42</u>	<u>23.12</u>	<u>24.78</u>	<u>24.94</u>	<u>27.1</u>	<u>27.19</u>	<u>28.7</u>	<u>31.0</u>
Education and Science	<u>8.60</u>	<u>9.41</u>	<u>10.22</u>	<u>10.32</u>	<u>11.3</u>	<u>11.35</u>	<u>12.4</u>	<u>13.8</u>
General education	<u>3.98</u>	<u>4.44</u>	N.A.	<u>5.00</u>	<u>5.3</u>	<u>5.61</u>	N.A.	N.A.
Kindergartens	0.52	0.60	(0.7) <u>c/</u>	0.70	(0.8)	0.82	(0.9)	(1.0)
Primary and secondary schools	2.66	2.87	N.A.	3.09	3.5	(3.45)	N.A.	4.0
Boarding schools	0.11	0.24	0.40	0.41	0.57	(0.30)	0.61	0.68
Other	0.68	0.73	N.A.	0.80	(0.43)	(1.04)	N.A.	N.A.
Training of cadres	<u>2.35</u>	<u>2.39</u>	<u>2.21</u>	<u>2.42</u>	<u>2.2</u>	<u>2.53</u>	<u>2.55</u>	<u>2.7</u>
Higher educational institutions and technicums	1.68	1.68	1.55	1.69	N.A.	1.76	1.8	N.A.
Technical-professional training	0.56	0.61	0.56	0.61	N.A.	0.65	N.A.	N.A.
Other	0.11	0.09	0.10	0.12	N.A.	0.12	N.A.	N.A.
Science	<u>1.70</u>	<u>2.00</u>	<u>N.A.</u>	<u>2.34</u>	<u>N.A.</u>	<u>2.68</u>	<u>N.A.</u>	<u>N.A.</u>
Cultural education, press, art, radio, and other	<u>0.58</u>	<u>0.58</u>	<u>N.A.</u>	<u>0.56</u>	<u>N.A.</u>	<u>0.53</u>	<u>N.A.</u>	<u>N.A.</u>
Health and Physical Culture	<u>4.11</u>	<u>4.46</u>	<u>4.77</u>	<u>4.82</u>	<u>5.2</u>	<u>4.99</u>	<u>5.0</u>	<u>5.2</u>
Of which:								
Hospitals and dispensaries	2.60	2.83	N.A.	3.10	N.A.	N.A.	N.A.	N.A.

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Table 6

Expenditures for Social-Cultural Measures in the State Budget of the USSR a/
1958-63
(Continued)

	Billion Current Rubles							
	<u>1958</u>	<u>1959</u>	<u>1960</u>		<u>1961</u>		<u>1962</u>	<u>1963</u>
	<u>Actual</u>	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>	<u>Actual</u>	<u>Plan</u>	<u>Plan</u>
Social Welfare	<u>8.70</u>	<u>9.24</u>	<u>9.79</u>	<u>9.79</u>	<u>10.6</u>	<u>10.85</u>	<u>11.3</u>	<u>12.0</u>
Social Security and Social Insurance	<u>8.17</u>	<u>8.74</u>	<u>9.32</u>	<u>9.29</u>	<u>N.A.</u>	<u>10.36</u>	<u>N.A.</u>	<u>N.A.</u>
Of which:								
Social Insurance and Social Security grants to Social Insurance	[5.74] <u>d/</u>	[6.39]	[7.02]	[7.03]	[7.80]	[7.97]	[8.4]	N.A.
Pensions <u>e/</u>	(6.23)	(6.56)	(7.00)	(6.88)	7.6	(7.58)	8.1	8.6
Grants for temporary disability and childbirth Sanatoriums, children's services, and other	1.48	1.71	1.77	1.82	N.A.	2.14 <u>f/</u>	N.A.	N.A.
Social Insurance expenditures	0.31	0.31	0.34	0.34	N.A.	0.36 <u>f/</u>	N.A.	N.A.
Social Security grants <u>g/</u>	0.15	0.16	0.21	0.25	N.A.	0.28 <u>f/</u>	N.A.	N.A.
Aid to Mothers	<u>0.53</u>	<u>0.50</u>	<u>0.47</u>	<u>0.50</u>	<u>N.A.</u>	<u>0.49</u>	<u>N.A.</u>	<u>N.A.</u>

- a. 15/
b. Because of rounding, components may not add to the totals shown.
c. Figures in parentheses are estimates.
d. Figures in brackets are sums of quantities included in several of the other categories under Social Welfare. Therefore, these bracketed figures are not to be included in derivation of subtotals.
e. Pensions from budget allocations and Social Insurance funds, excluding cooperative insurance payments.
f. Including a small amount of cooperative insurance payments resulting from the inclusion of promstrakhkass (industrial insurance fund) expenditures in reported total Social Insurance payments.
g. Social Security expenditures through the Social Security system less pension payments made through the Social Security system.

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Table 7

Expenditures for Science in the USSR a/*
1955-63

Billion Current Rubles

	<u>Budget Outlays for Science <u>b</u>/</u>	<u>Enterprise Own Funds <u>c</u>/</u>	<u>Other <u>d</u>/</u>	<u>Total <u>e</u>/</u>
1955 (actual)	0.83	0.33	N.A.	N.A.
1956 (actual)	1.03		0.70 <u>f</u> /	1.73
1957 (actual)	1.36	0.28	N.A.	N.A.
1958 (plan)	1.50	0.32	0.57	2.39
1958 (actual)	1.70		0.72 <u>f</u> /	2.42
1959 (plan)	N.A. <u>g</u> /	0.42	N.A.	2.73
1959 (actual)	2.00		0.82 <u>f</u> /	2.82
1960 (plan)	N.A.	N.A.	N.A.	3.26
1960 (actual)	2.34		0.95 <u>f</u> /	3.29
1961 (plan)	N.A.	N.A.	N.A.	3.80
1961 (actual)	2.68		1.11 <u>f</u> /	3.8
1962 (plan)	N.A.	N.A.	N.A.	4.30
1963 (plan)	N.A.	N.A.	N.A.	4.70

* Footnotes for Table 7 follow on p. 17.

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Table 7

Expenditures for Science in the USSR a/
1955-63
(Continued)

- a. These expenditures do not cover all outlays for science or research and development. On the other hand, the coverage of the announced expenditures for Science appears to have been expanded in 1959 to include more than that spent through the budget category Science on research institutions and the sums spent by economic bodies out of their own funds. In the 1958 plan, a total of 570 million rubles was devoted to this area -- possibly to higher educational institutions for supporting research and development or to enterprises through the budget allocation for Financing the National Economy. See source 16/.
- b. In the Soviet budget, the allocation to Science under the education component of the category for expenditures on Social-Cultural Measures. Formerly, these allocations were labeled as outlays for "scientific-research institutes." Actual budget outlays for science are reported for 1955-60 in source 17/. The 1961 outlays are given in source 18/. Planned budget outlays for science in 1958 are from source 19/.
- c. Research performed or contracted out by enterprises and charged to cost of production. The figures for 1955 and 1957 actual and 1958 planned expenditures are derived by subtracting budget outlays for science as reported in source 20/. The planned figure for 1959 is taken from source 21/.
- d. The destination of allocations to this category is not known but could include expenditures allocated to higher educational institutions, Financing the National Economy, or scientific research within the Defense category. The "other" planned expenditure for 1958 is derived as the difference between total expenditure and the sum of budget outlays for science and expenditures from enterprise own funds.
- e. Actual total expenditures on science from all sources are found in source 22/. Planned total expenditures are reported in source 23/.
- f. This estimate comprises both "enterprise own funds" and "other." These estimates are residual expenditures derived as the difference between total reported expenditures on science from all sources in the given year and reported expenditures on the Science category in the budget.
- g. The last plan figure available for Science in the Soviet budget is for 1959. It was reported as 2.31 billion rubles, but the size of the figure compared with those for earlier years and the actual figure for 1959 indicates that it embraces a larger concept of budget allocations than that for Science alone. See footnote a, above.

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planned "science" expenditures in recent years makes it impossible to estimate how much of these outlays is being channeled through the budget allocation to Science under Education in comparison with allocations to other budget categories and expenditures from own funds by economic enterprises and organizations. Moreover, the extent to which announced total outlays actually cover all types of expenditures on scientific research and development is not known.

C. Defense

The explicit Defense budget for 1963 is set at 13.9 billion rubles, a 3.7-percent increase above the plan for 1962 (see Table 8*). The announced allocation for Defense represents the ruble outlays for certain military programs, but other programs that normally would come under the heading of national security are known or are believed to be excluded from the explicit Defense category. ^{24/} Thus some military research may be covered under Science, in Education. Other military research and development and testing expenditures are likely to be under Financing the National Economy, which is known to include allocations for "mastering production of new products." Even some of the procurement of weapons may be under other parts of the budget than Defense. In any event, the boundary between research, development and testing, and procurement is fuzzy and subject to manipulation. The timing of payments by the armed forces is also flexible and need not reflect accurately the relative resource costs or the economic activity from year to year.

In the light of these uncertainties the comparability of the explicit budget category Defense from year to year should be taken with a grain of salt. The stability of the defense budget at about 9.3 billion rubles from 1958 to the 1961 plan probably masks a continuous rise in over-all defense expenditures. The increase of one-third in the defense budget announced by Khrushchev in May 1961 clearly was intended to have a propaganda effect. Thus an acceleration of over-all defense expenditures well may have occurred in 1961 and 1962, but the increase in the explicit Defense budget from 9.3 billion rubles in 1960 to 11.6 billion rubles in 1961 may overstate the actual increase.

D. Administration, Reserve Funds of the Councils of Ministers, and Loan Service

The remaining planned expenditure categories are of little interest. Outlays for Administration continue at a level of 1.1 billion rubles. Expenditures for Loan Service, covering principal retirement and interest payments on the state loan, are not revealed but probably are about 800 million to 1 billion rubles.

* Table 8 follows on p. 19.

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Table 8

Expenditures of the State Budget of the USSR, by Budget Category a/
1958-63

	Billion Current Rubles											
	1958		1959		1960		1961		1962		1963	
	Confirmed Plan	Actual	Confirmed Plan	Actual	Confirmed Plan	Actual	Confirmed Plan	Actual	Confirmed Plan	Actual	Confirmed Plan	Actual
Financing the National Economy	25.73	29.03	30.89	32.37	32.85	34.13	33.9	32.6	32.5	N.A.	34.5	
Industry and Construction	12.90	13.67	14.53	14.88	15.19	15.59	16.1	N.A.	14.8	N.A.	15.5	
State Agriculture	5.34	2.59	3.03	3.41	3.23	4.35	4.2	N.A.	5.1	N.A.	(5.2) e/ d/	
MTS-RTS's b/	(0.50) e/	(0.50) e/	(0.50) e/	(0.50) e/	(0.50) e/	(0.50) e/	(0.5) e/	(0.50) e/	(0.5) f/	N.A.	(0.5) d/	
Agricultural Procurement	N.A.	2.04	N.A.	3.21	N.A.	3.59	(1.6) e/	(1.6) e/	(1.2) f/	N.A.	1.7	
Trade (domestic and foreign)	1.84	2.26	2.50	2.54	2.54	2.64	2.5	(2.5) h/	2.5	N.A.	2.4	
Transportation	N.A.	0.15	N.A.	0.15	2.75	0.18	3.6	N.A.	3.8	N.A.	3.7	
Communications	N.A.	1.90	N.A.	2.75	2.86	3.22	(3.99) 1/	(5.4) 1/	4.6	N.A.	5.5	
Municipal Economy and Housing	N.A.	(4.51) 1/	N.A.	(4.82) 1/	N.A.	(3.99) 1/	(5.4) 1/	N.A.	4.6	N.A.	5.5	
Residual												
Social-Cultural Measures j/	21.28	21.42	23.22	23.12	24.78	24.94	27.1	27.2	28.7	(28.9) k/	31.0	
Education and Science	8.42	8.60	9.44	9.41	10.22	10.32	11.3	11.3	12.4	N.A.	13.8	
Of which:												
Science	1.50	1.70	N.A.	2.00	N.A.	2.34	N.A.	2.68	N.A.	N.A.	N.A.	
Health and Physical Culture	4.04	4.11	4.41	4.46	4.77	4.82	5.2	5.0	5.0	N.A.	5.2	
Social Welfare	8.82	8.70	9.37	9.24	9.79	9.79	10.6	10.9	11.3	N.A.	12.0	
Administration	1.19	1.20	1.15	1.12	1.11	1.09	1.09	1.1	1.07	(1.1) k/	1.1	
Defense	9.63	9.36	9.61	9.37	9.61	9.30	9.26	11.6	13.4	N.A.	13.9	
Loan Service	(0.37) 1/	0.37	(0.70) 1/	0.69	(0.70) 1/	0.7	0.8	0.8	0.8	(0.8) 1/	(0.9)	
Reserve Funds of the Councils of Ministers	1.67	0	2.12	0	2.76	0	2.80	0	3.93	0	2.6	
Budgetary Expenditure Residual	(2.91) 1/	2.90	(3.07) 1/	3.73	(2.67) 1/	2.97	2.65	3.0		N.A.	(2.2) 1/	
Total expenditures	62.78	64.28	70.76	70.40	74.48	73.13	77.6	76.3	80.4	82.7	86.2	

- a. 25/
b. Machine tractor stations (MTS's) until 1958, repair technical stations (RTS's) thereafter.
c. Figures in parentheses are estimates.
d. State Agriculture and Agricultural Procurement were reported at 5.7 billion rubles in the plan for 1963. For derivation of the estimates, see A, 3, p. 9, above.
e. Estimates for 1958-61 are assumed to equal the estimates derived from 1962 and 1963.
f. Trade and Agricultural Procurement were reported at 1.7 billion rubles in the plan for 1962. For derivation of the estimates, see A, 3, p. 9, above.
g. Estimates based on (1) actual 1960 and estimates for the 1962 plan (see A, 3, p. 9, above), (2) estimated effect of the ruble conversion in 1961 equal to 2.0 billion rubles, (3) plan assumed equal to actual, and (4) average expenditures on Trade equal to 1.2 billion rubles, 1959-62 (see A, 3, p. 9, above).
h. Estimated on the basis of consistent relationships between plan and actual expenditures, and adjusted downward on the basis of the 1963 plan.
i. Estimate derived as a residual.
j. Because of rounding, components may not add to the totals shown.
k. Estimated on the basis of consistent relationships between plan and actual expenditures.
l. Estimated on the basis of reported expenditures.

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Reserve Funds, for expenditure by the Council of Ministers of the USSR and by the Councils of Ministers of the union republics at their discretion are planned at 2.6 billion rubles. This figure is somewhat less than the sum allocated in 1961, the last year in which expenditures were given for this category. During the year this sum will be devoted to various categories. The precise disposition, however, is impossible to determine from published information. In most recent years the reserve fund apparently has been used for expenditures under Financing the National Economy. In 1961, however, it may have gone mostly to defense.

E. Budgetary Expenditure Residual

The remainder of the expenditures in the general expenditure budget is a category designated as the Budget Expenditure Residual. This Residual is believed to include outlays for internal security,* and it possibly includes budgetary appropriations to increase the bank funds available for long-term lending. Additional increases in bank funds for long-term lending are provided by the realized surplus of the preceding year. 26/

III. Revenues

The general trend in Soviet state budgetary revenues is shown in Table 9.**

The turnover tax, effectively an excise tax levied on consumption goods, represents the largest single revenue item in the budget. Table 9** shows the trend in receipts from this tax in recent years: in 1963 the total amount of the tax to be collected is to be 33.9 billion rubles, up slightly from planned collections in 1962.

All of the profits from state enterprises are disposed of in accordance with instructions laid down by the state. Profits retained by enterprises, with the exception of sums used to repay modernization loans and to finance various types of bonuses, are used, together with accumulations of amortization funds not used for capital repair, for capital investment, and other planned expenditures. Profits transferred into the budget are called "deductions from profits" and become a part of general revenue. In recent years the share of revenue from deductions from profits has been increasing rapidly.

* Outlays for internal security are expenditures of the republic Ministers of Internal Affairs and of the Committee or Committees for State Security.

** Table 9 follows on p. 21.

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Table 9

Revenues of the State Budget of the USSR a/
by Budget Category
1958-63

	Billion Current Rubles											
	1958		1959		1960		1961		1962		1963	
	Confirmed Plan	Actual	Confirmed Plan	Actual	Confirmed Plan	Actual	Confirmed Plan	Actual	Confirmed Plan	Actual	Confirmed Plan	Actual
Social sector	57.03	60.40	65.60	66.61	70.17	70.14	72.1	71.0	74.5	N.A.	79.8	
Turnover Tax	30.15	30.45	33.30	31.07	31.71	31.34	32.5	30.9	32.4	N.A.	33.9	
Deductions from Profits	13.03	13.54	15.50	15.96	20.30	18.63	20.5	20.7	23.2	N.A.	26.1	
Revenue from MTS-RTS's <u>b/</u>	1.19	0.97	0.15	0.18	(0) <u>c/</u> <u>d/</u>	(0) <u>c/</u>	(0) <u>d/</u>	(0) <u>d/</u>	(0) <u>d/</u>	(0) <u>d/</u>	(0) <u>d/</u>	
Other Taxes on Organizations	1.56	1.66	1.96	1.90	2.13	1.84	1.6	1.2	1.3	N.A.		
Social Insurance Receipts	3.33	3.26	(3.50) <u>e/</u>	3.58	(3.70) <u>e/</u>	3.74	4.2	4.2	4.5	N.A.	19.8	
Revenue Residual	7.77	10.52	(11.19) <u>f/</u>	13.92	(12.33) <u>f/</u>	14.59	13.3	14.0	13.1	N.A.		
Private sector	7.27	6.83	6.73	7.41	7.04	6.94	6.9	6.9	7.4	N.A.	7.9	
State Taxes on the Population	4.98	5.19	5.61	5.52	5.72	5.60	5.5	5.8	5.8	N.A.	6.3	
State Loans from Savings Deposits	1.30	0.65	0.72	1.33	0.84	0.85	0.9	0.76	1.0	N.A.	1.0	
Other State Loans	0.46	0.40		0.16		0.06	0.1	0.03	0.1	N.A.	(0.1) <u>g/</u>	
Local Taxes and State Lottery Revenue	0.53	0.58	(0.40) <u>f/</u>	0.40	(0.48) <u>f/</u>	0.43	0.4	0.3	0.5	N.A.	(0.5) <u>f/</u>	
Total revenues <u>h/</u>	64.30	67.24	72.33	74.01	77.21	77.08	79.0	78.05	81.9	84.7	87.7	

a. 27/

b. Machine tractor stations (MTS's) until 1958, repair technical stations (RTS's) thereafter.

c. Figures in parentheses are estimates.

d. Estimated on the assumption that by 1960 the elimination of MTS-RTS's was complete.

e. Estimated on the basis of consistent relationships between plan and actual revenues.

f. Estimate derived as a residual.

g. Estimate assumed equal to the plan for 1962.

h. Because of rounding, components may not add to the totals shown.

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The third largest revenue-producing item in the budget is the Budgetary Revenue Residual. This large unexplained category includes income from forestry operations, unclaimed balances transferred to the state by enterprises, and sums received from the sale of state property. The Residual is believed to receive the proceeds of the sale of gold from the State Material Reserves and repayments of foreign loans.

Cancellation of the third step in the planned elimination of the income tax in 1962 accounts for part of the planned increase in revenue from taxes on the population.

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APPENDIX

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